



Auditor of State  
David A. Vaudt

*"Budgeting - Iowa's Future"*

April 12, 2004

## Presentation Objectives

1. Overview of the Fiscal Year 2005 Budget Proposals - Governor's and Republicans'
2. Iowa's "Balanced" Budgets
3. Iowa's Spending Limitation
4. Auditor Vaudt's Recommendations
5. Questions and Answers Session

## State of Iowa General Fund

Remarks on Fiscal Year 2005 budget proposals focus on:

- Primary differences between the two budget proposals
- Concerns common to both budget proposals:
  - Lack of clarity
  - Lack of longer-range focus

# State of Iowa General Fund Primary Differences in Budget Proposals

## Republicans' plan:

- Spends \$177 million less
- Depletes the Cash Reserve Fund (CRF) of remaining \$159.6 million
- Utilizes borrowings since monies taken from CRF by law must be repaid
- Relies on an "economic recovery" - Revenue Estimating Conference (REC) raised revenue growth estimates as follows:
  - FY2004 - from 1.2% to 1.8%
  - FY2005 - from 1.6% to 1.8%

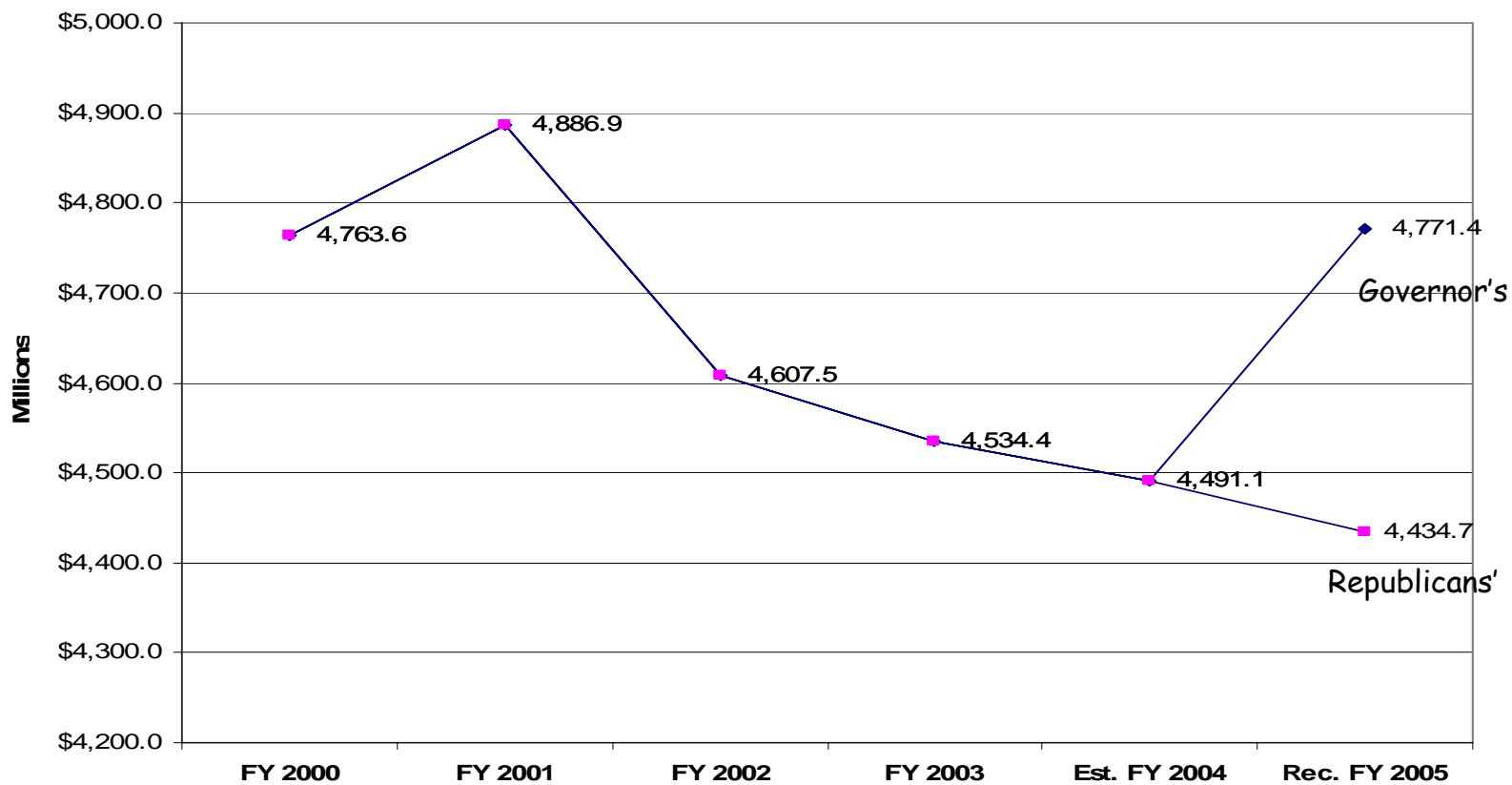
# State of Iowa General Fund Primary Differences in Budget Proposals

## Governor's plan:

- Spends \$177 million more
- Increases taxes:

Cigarette and Tobacco Tax	\$108.0
Combined Corporate Reporting	25.0
Expanded Sales Tax Base	<u>208.3</u>
	<u>\$341.3</u>
- Increases debt by issuing \$300 million of bonds to fund Vision Iowa and Cultural and Tourism projects and various capital projects

## State of Iowa General Fund Expenditures



# State of Iowa General Fund Lack of Clarity (\$ in Millions)

	<u>Republicans'</u> <u>Proposal</u>	<u>Governor's</u> <u>Proposal</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>Percentage</u>
Fiscal Year 2005:				
Expenditures	\$4,434.7	\$4,771.4	\$(336.7)	( <u>7.1%</u> )
Expenditures Shifted	<u>378.0</u>	<u>218.4</u>	<u>159.6</u>	
"True Total Expenditures"	<u>\$4,812.7</u>	<u>\$4,989.8</u>	<u>\$(177.1)</u>	( <u>3.5%</u> )

# State of Iowa General Fund Lack of Clarity (\$ in Millions)

	<u>Republicans'</u>	<u>Governor's</u>
Fiscal Year 2005:		
General Fund - <u>Expenditures</u>	<u>\$4,434.7</u>	<u>\$4,771.4</u>
<u>Expenditures Shifted to:</u>		
Cash Reserve Fund -		
For Property Tax Credits	159.6	0.0
Senior Living Trust Fund -		
For Medicaid	130.6	130.6
Tobacco Related Funds:		
For Medicaid & Substance Abuse	51.4	51.4
For Debt Service Payments	28.9	28.9
Environment First Fund -		
For Soil Conservation and Park Operations	7.5	7.5
	<u>378.0</u>	<u>218.4</u>
General Fund - <u>"True Total Expenditures"</u>	<u>\$4,812.7</u>	<u>\$4,989.8</u>



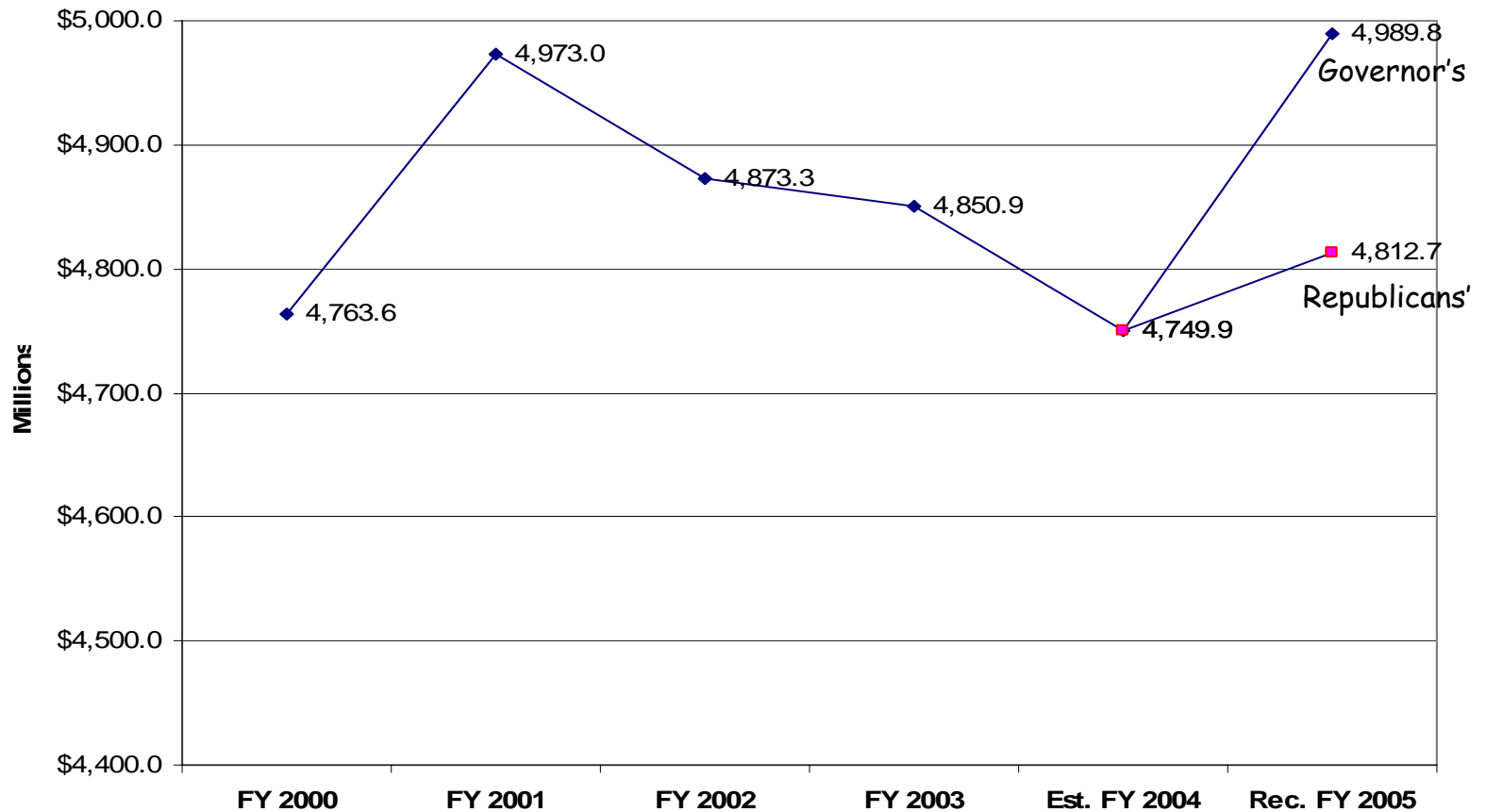
# State of Iowa General Fund Lack of Clarity (\$ in Millions)

	<u>Expenditures</u>	<u>Expenditures Shifted</u>	<u>"True Total Expenditures"</u>
FY 2000	\$ 4,763.6	-	\$ 4,763.6
FY 2001	\$ 4,886.9	\$ 86.1	\$ 4,973.0
FY 2002	\$ 4,607.5	\$ 265.8	\$ 4,873.3
FY 2003	\$ 4,534.4	\$ 316.5	\$ 4,850.9
Est. FY 2004	<u>\$ 4,491.1</u>	<u>\$ 258.8</u>	<u>\$ 4,749.9</u>
Rec. FY 2005:			
Republicans'	<u>\$ 4,434.7</u>	<u>\$ 378.0</u>	<u>\$ 4,812.7</u>
Governor's	<u>\$ 4,771.4</u>	<u>\$ 218.4</u>	<u>\$ 4,989.8</u>

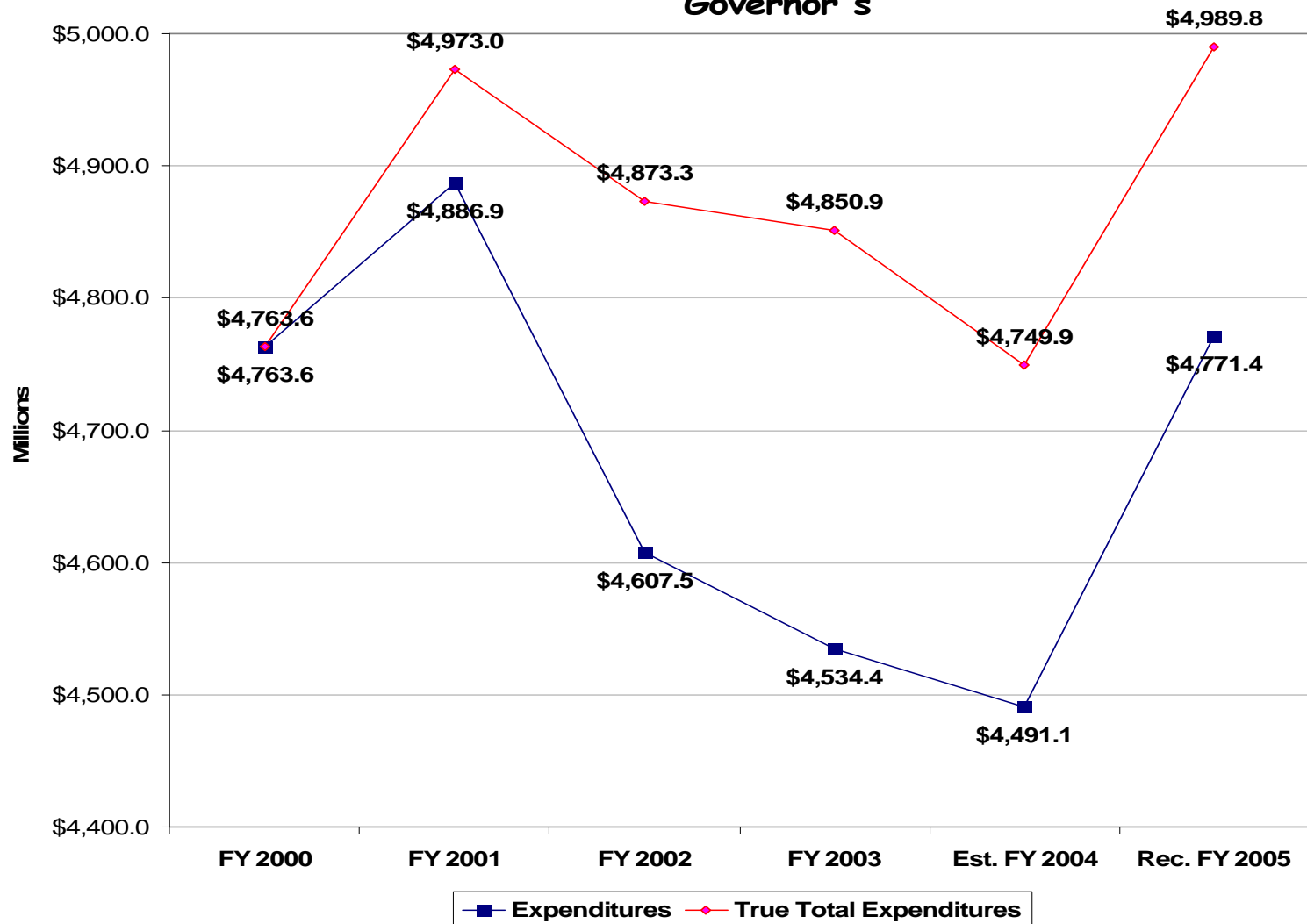
# State of Iowa General Fund Lack of Clarity (\$ in Millions)

	<u>Expenditures</u>	<u>"True Total Expenditures"</u>
Republicans':		
FY 2005 v. FY 2000	<u>\$ (328.9)</u>	<u>\$ 49.1</u>
Percentage	<u>(6.9%)</u>	<u>1.0%</u>
Governor's:		
FY 2005 v. FY 2000	<u>\$ 7.8</u>	<u>\$ 226.2</u>
Percentage	<u>0.2%</u>	<u>4.7%</u>

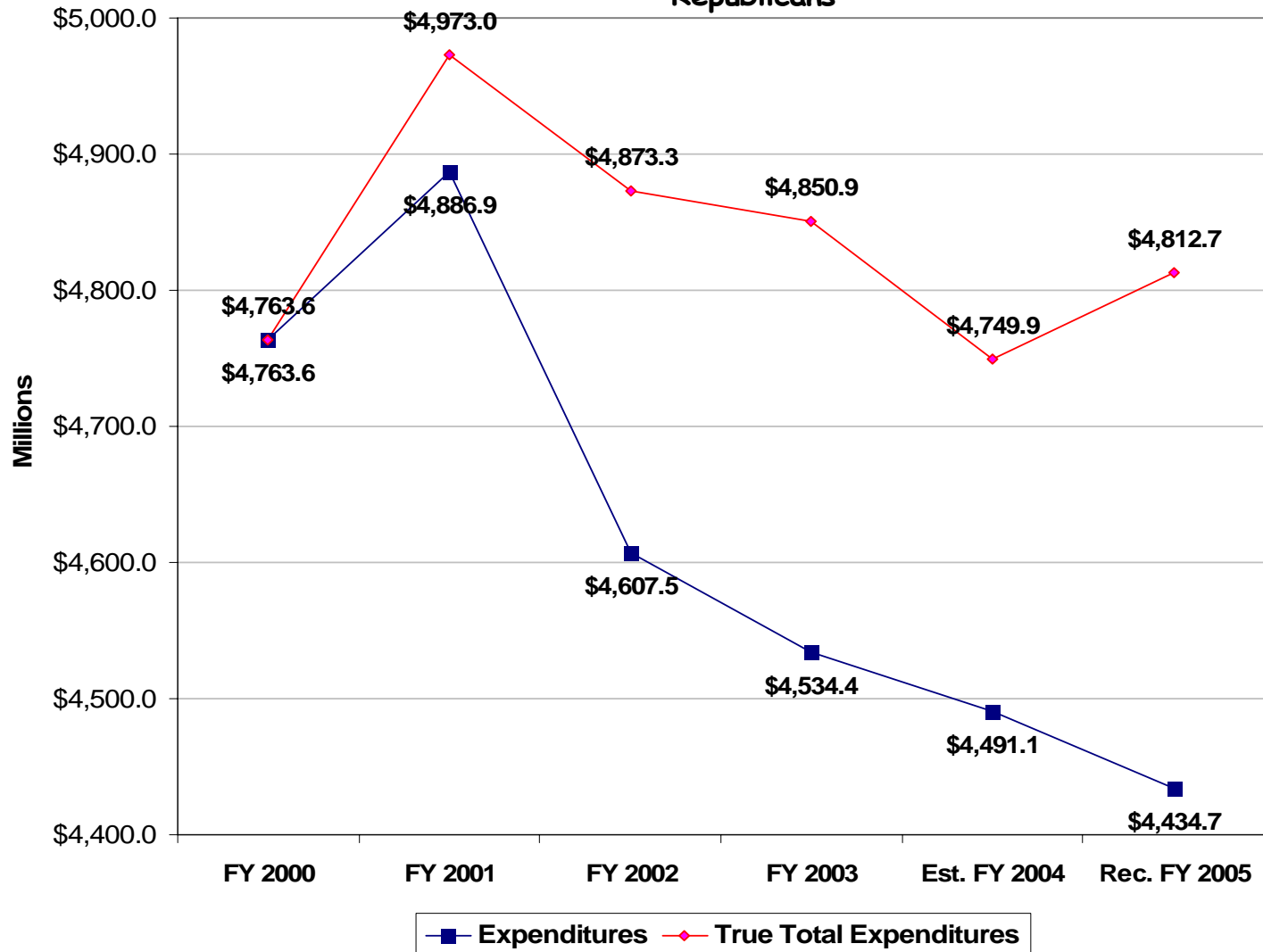
## State of Iowa General Fund "True Total Expenditures"



# State of Iowa General Fund Appropriations Governor's

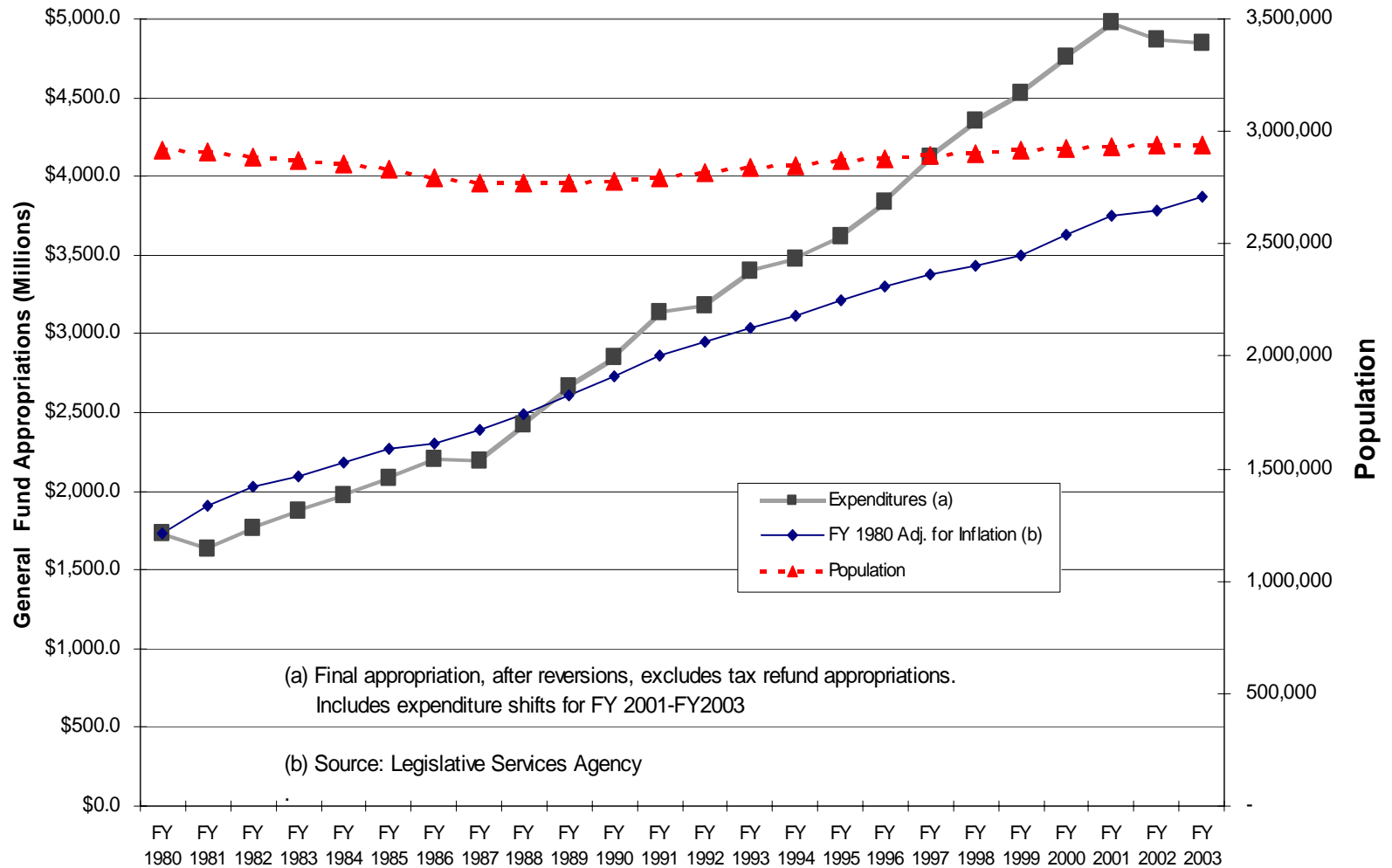


State of Iowa  
General Fund Appropriations  
Republicans'



# State of Iowa

## General Fund Expenditures and Population



# State of Iowa General Fund Expenditures

FY1980 to FY2003

Inflation	<u>122.9%</u>
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"True Total Expenditures"	<u>179.7%</u>
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**State of Iowa  
General Fund Expenditures  
Breakdown of Iowa's Population  
1980-2001**

	<u>1980</u>	<u>2001</u>
Age 0-19	32%	28%
Age 20-64	55%	57%
Age 65+	13%	15%
Total	2,914,019	2,931,758



## State of Iowa General Fund

- Most of the focus has been on revenues - spending is the issue - expenditures have grown significantly greater than inflation since the mid-1990's.
- The expenditure growth of the last few years is not sustainable.
- Key solution - we need clarity in the budgeting process - it is critical that budget decisions be based upon valid, meaningful comparisons - based upon "true total expenditures."

## State of Iowa General Fund

Once you sort through the lack of clarity, what's the bottom line on the budget proposals?

Both budget proposals fall short of what Iowans deserve.

### Why?

- Both budget proposals ignore the need for a sound and reasonable long-range financial plan for Iowa
- Without a long-range financial plan, it is impossible to appropriately evaluate the alternatives offered in the budget proposals:
  - increased borrowings?
  - increased taxes?
  - long-term impact of each?
- We cannot continue to make budget decisions in a "one-year vacuum" without considering the long-term impact.

## State of Iowa General Fund Lack of Longer-Range Focus

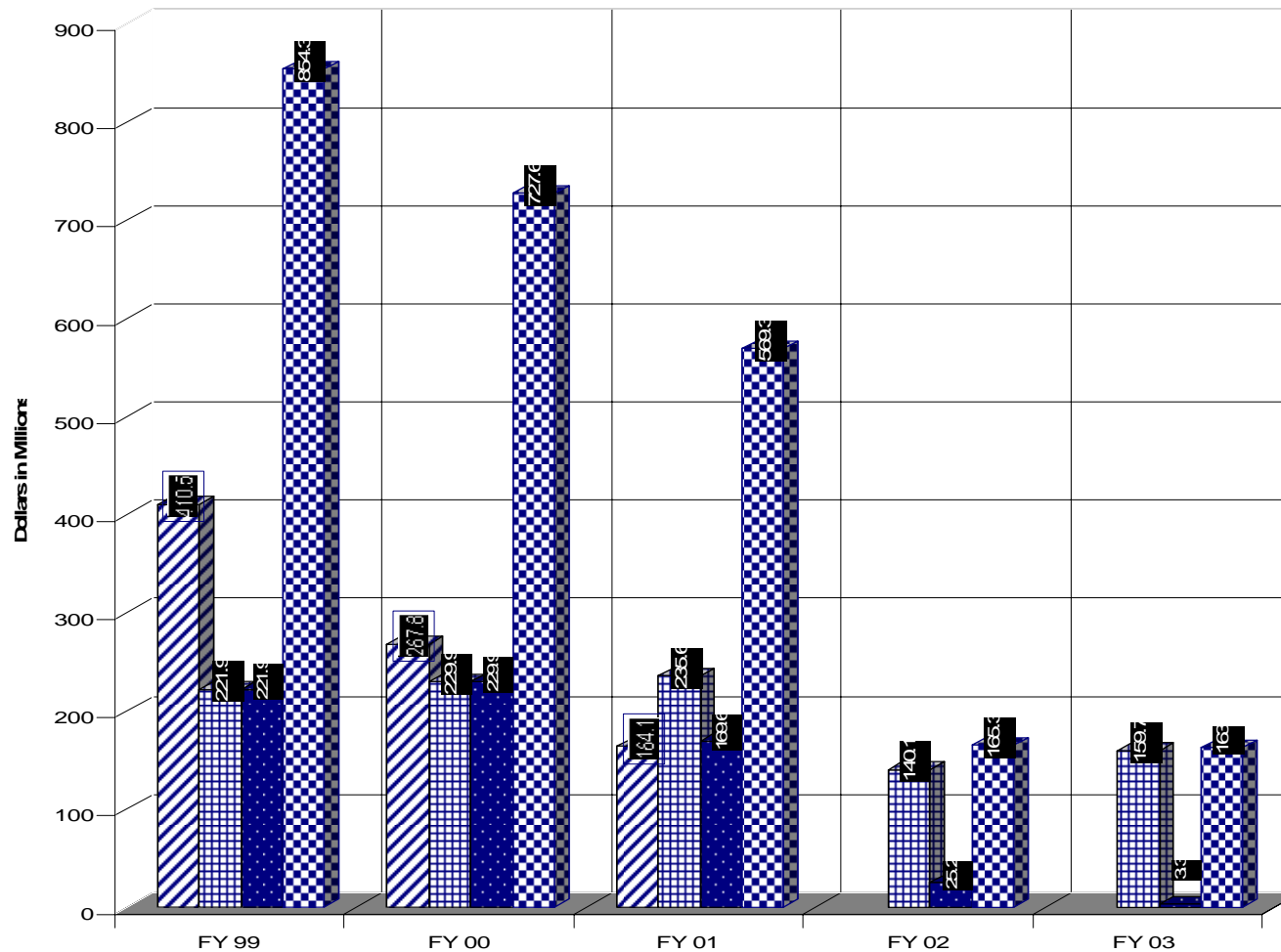
- Primary focus is balancing the current year budget
- Ignores the impact of current year budget decisions on future years

Iowa's lack of a longer-range focus has severely impacted our financial condition.

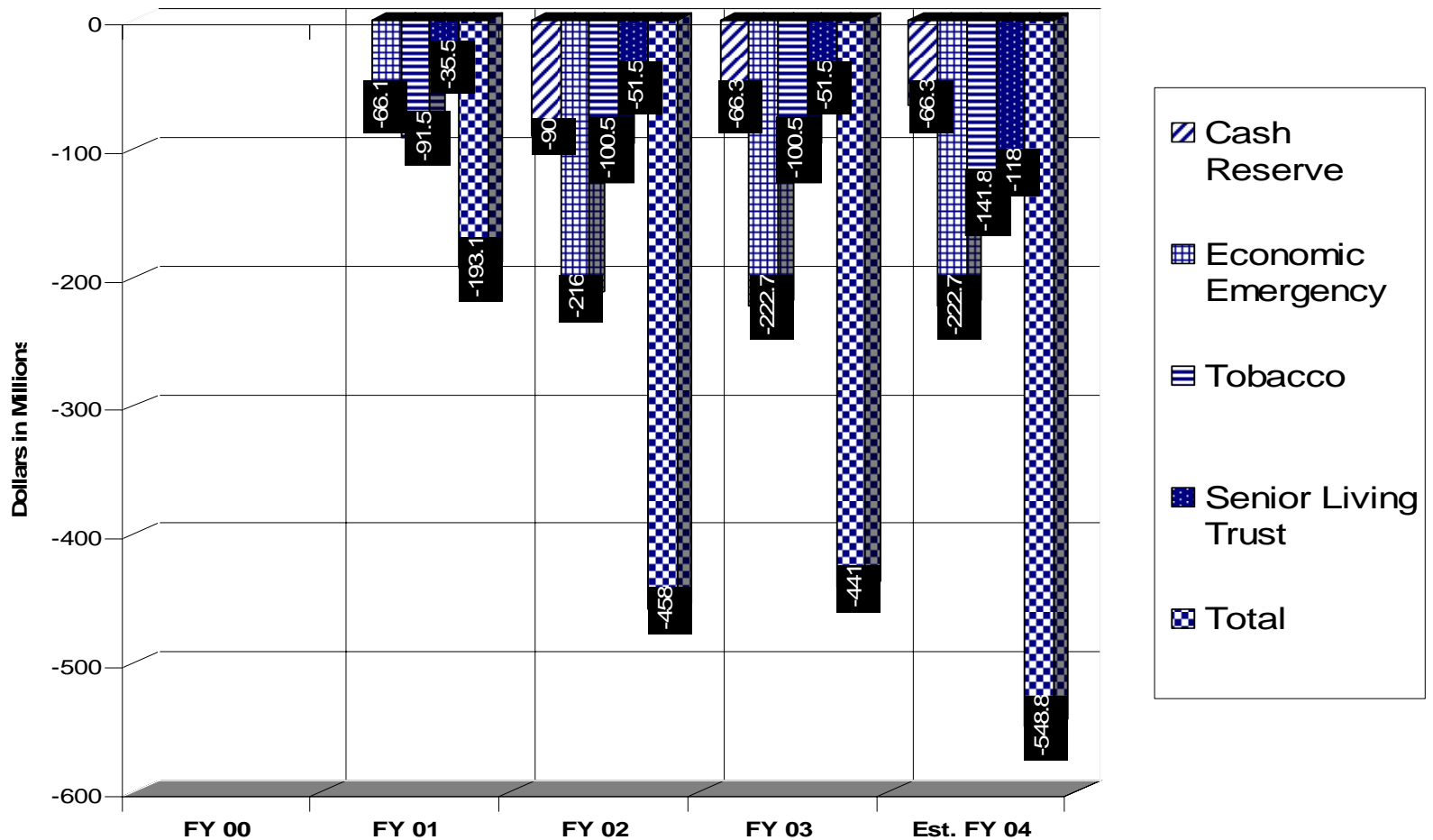
## Iowa's "Balanced" Budgets

- Depleted cash surplus
- Raided other funds and special accounts
- Committed to repay certain amounts
- Not addressed repayment for other amounts

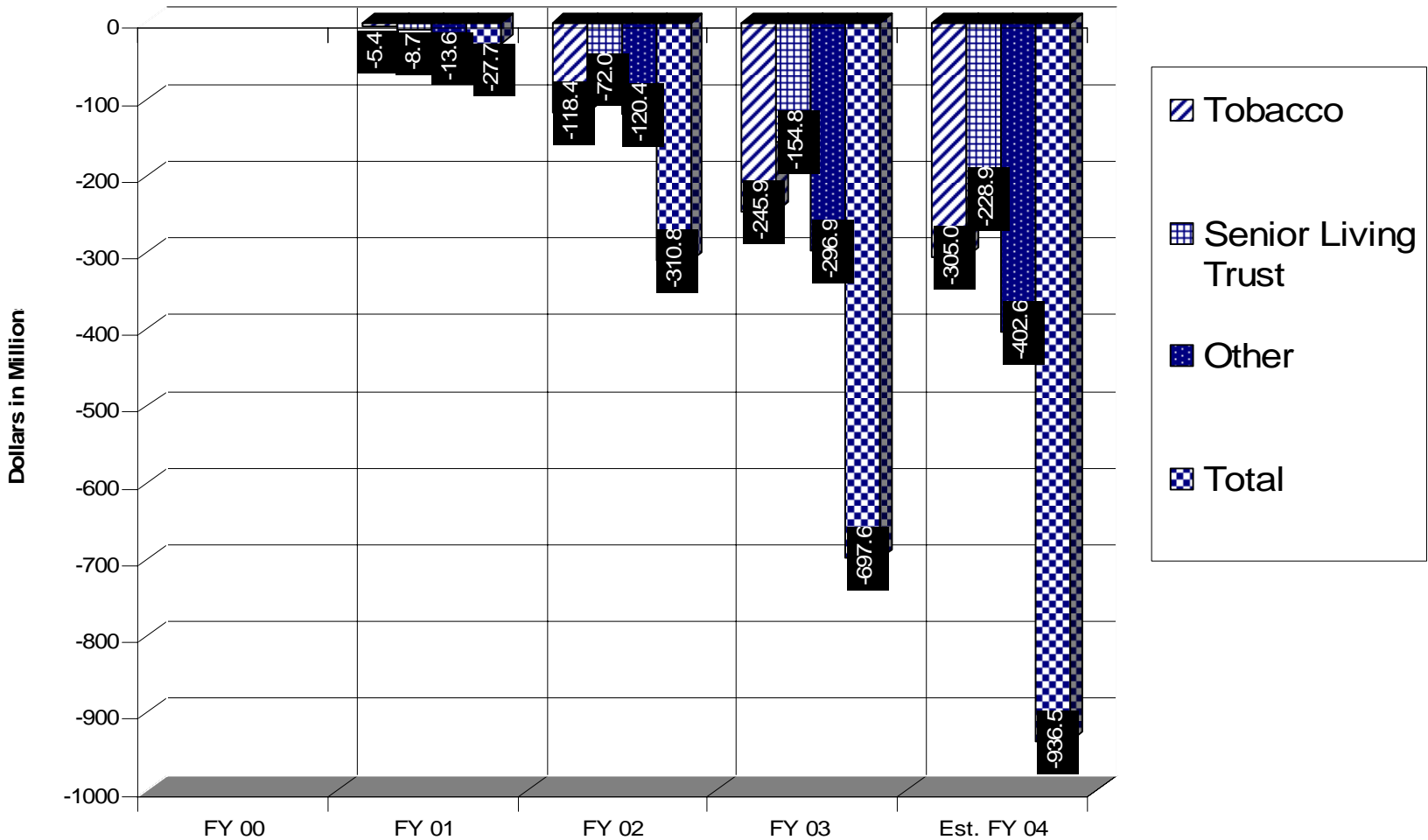
# State of Iowa General Fund Cash Surplus and Reserves



# State of Iowa General Fund Repayments Required by Law



# State of Iowa General Fund Other Revenue Transfers & Expenditures Shifts - Repayment Not Addressed



## What Does It All Mean?

- Spent alarming \$1.9 billion more than revenue stream
  - Over \$400 million cash surplus spent
  - \$1.5 billion taken from other funds and special accounts
- Borrowings at June 30, 2004 - \$550 million
- Additional \$930 million - repayment not addressed
- Cash flow borrowing in Fiscal Year 2004



## Iowa's Spending Limitation

- Ended with a budget deficit in 2 of last 3 years
- Fiscal Year 2003 deficit was \$46 million
- Lots of focus on Revenue Estimating Conference (REC)
- REC estimated revenue within + or -2% last 8 fiscal years

## Iowa's Spending Limitation (continued)

- Real issue is spending
- Fiscal Year 2003 - \$2 million cushion on \$4.5 billion General Fund budget
- Spending limitation of 99% - not real limitation
- Fiscal Year 2004 - \$3.8 million cushion on \$4.5 billion General Fund budget

## Auditor Vaudt's Recommendations

- Expenditures must be in line with revenues, not revenues in line with expenditures
- Take serious steps toward implementing good budgeting principles
  - Align revenues and expenditures in same fiscal year
  - Eliminate reliance on one-time and limited-time resources for on-going expenditures
  - Incorporate a longer-range focus into the budgeting process

## Auditor Vaudt's Recommendations (continued)

- Enhance clarity of the budget - set forth the "true total General Fund expenditures"
- Consider a two-year budget
- Develop a long-range plan (3 to 5 years) - set specific financial goals and establish timelines  
- bring joint Executive and Legislative committee together
- Implement a real spending limitation - 99% or 98%
- Set a timeline and repayment schedule for the monies borrowed from other funds and special accounts

# State of Iowa General Fund

## Long-range Concern:

The FY 2005 budget recommendations make no mention of the almost \$550 million that has been borrowed and is required to be repaid.

### Estimated FY 2004 Cumulative Balances:

Cash Reserve Fund	\$ 66.3
Economic Emergency Fund	222.7
Tobacco Related Funds	141.8
Senior Living Trust Fund	<u>118.0</u>
	<u><u>\$548.8</u></u>

## State of Iowa General Fund

These borrowings started in FY 2001 - this is FY 2004, but a repayment plan has still not been developed.

FY 2005 (Republicans') recommends borrowing another \$160 million from Cash Reserve Fund.

### What must be done?

Develop and implement a repayment plan--now.

# State of Iowa General Fund

## Long-range Concern:

The FY 2005 budget recommendations make no mention of another over \$930 million taken from over 30 different funds and special accounts where repayment has never been addressed.

### Estimated FY 2004 Cumulative Balances:

Tobacco Related Funds	\$300*
Senior Living Trust Fund	230*
Other funds and special accounts	<u>400</u>
	<u>\$930</u>

\*These amounts are in addition to the amounts required to be repaid to these funds.

FY 2005 (Governor's and Republicans') recommends taking another \$220 million.

# State of Iowa General Fund

## What must be done?

- Evaluate funds and special accounts raided - viable without repayment? priority program?
- Decide which amounts will be repaid.
- Inform the taxpayers of Iowa which amounts will not be repaid and the consequences.
- Develop and implement a repayment plan, as applicable.



## What Can You Do?

- Stay informed
- Communicate with your Legislators:

House            515-281-3221

Senate           515-281-3371

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# Questions & Answers Session